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DISCUSSION.

JACOB H. HOLLANDER : 'The one signal omission in the paper just read is any intimation of the service which Dr. Adams himself rendered in the work of fiscal reconstruction he has described. He was invited to join the treasurer's staff just as a revenue system was being prepared for submission to the insular legislature. His services in drafting the general property tax law were most important. He had practically exclusive charge of the difficult work of assessing domestic and foreign corporations, and from first to last his presence in Porto Rico was an aid and a comfort to those charged with the financial administration of the island.

Perhaps the most instructive lesson to a body such as this, in the recent financial experience of Porto Rico, is the mutual obligation in successful public financiering of the financial theorist and the financial administrator. This is not only the well established principle that the best laws may be perverted and abused in execution. But, more fundamentally, that just as no degree of technique can redeem an unsound financial measure, so no fiscal device however faultless in theory is good unless it possesses the possibility of administrative efficiency.

In the fiscal reconstruction of Porto Rico, the fullest opportunity was given for the adoption of scientific principles,—first, by reliance upon presumably expert opinion ; second, by the exemption of the island from the internal revenue laws of the United States, and third, by the grant of full financial power to the insular legislature. It is true that the tariff legislation for the island was not, as in the recent Philippine bill, devised specifically with reference to insular conditions, but much of the inconvenience that might have arisen from this fact was reduced first by executive modifications of

the original schedules, and thereafter by the anticipation and realization of free trade with the United States. On the whole in Porto Rico, as not often elsewhere, financial theory had free hand and fair field.

On the other hand the financial theorist will emerge from careful study of the actual details of the fiscal revision of the island with meek heart and chastened spirit. On every side he is confronted with evidence of the overwhelming importance of that which he had heretofore lightly brushed aside as financial technique or relegated to the convenient limbo of financial administration. His exclusive concern has theretofore been, for example, as to what commodities and what rates should enter in an excise schedule, or as to whether a general property tax should exempt mortgages or allow deduction for indebtedness. But his actual experience is to find that these considerations are absolutely not one whit more important than the questions whether the payment of the excises should be evidenced by the affixture of a stamp to the commodity or otherwise, and whether the assessment schedule should be ruled in this way rather than that, or contain these questions rather than those. Indeed relative to the ultimate success or failure of his desires they are not so important. He finds that it is no greater sin to neglect local conditions and historical development than to ignore a mental reaction and a subjective preparedness for almost radically different financial institutions. He discovers that canons of taxation, laws of incidence and fiscal rules-of-thumb are as relative to time, place and conditions as the dicta of the classical political economy; that the economic man has a twin brother in the fiscal man, and that unthinking reliance upon the one is as dangerous as upon the other. His return to academic activity will

be signalized by a greater insistence upon the principle of financial relativity, by a bolder assertion of the indissoluble connection of technique with theory, and by a less dogmatic state of mind that will probably tend to make his preachment sounder and his influence greater.

The actual operation of the new revenue system since the beginning of the present fiscal year, July 1, 1901,—the period when the new law went into full operation—is full of interest. For the five months ending November 30, 1901, the ordinary receipts of the insular treasury have been \$1,000,542.62. The ordinary expenditures for the same period have been \$881,976.64, making an excess of receipts over expenditures of \$118,565.98.

This result is, however, somewhat misleading, in consequence of the facts that insular expenditures are not spread proportionately over the twelve months, and also that payments on account of the property and delinquent taxes are heavier in the earlier than in the latter part of the year. A safer procedure would be to compare the insular budget and its estimate of receipts with the actual results for the five months.

The necessary expenses for carrying on the government of the island for the fiscal year beginning July 1, 1901, as authorized by the insular legislature in general and special appropriation bills, aggregated \$1,976,802.21. The estimated receipts of the treasury were customs duties \$784,775; excise taxes \$715,343; property and delinquent direct taxes \$500,000—aggregating \$2,000,118; or \$23,315.79 more than the authorized expenditures with no account taken of minor miscellaneous receipts.

In each of the three essential sources of revenue, the actual receipts for the five months ending November

30, 1901, have justified the budgetary estimates and in two cases by comfortable margins. Thus, customs have yielded \$332,987.57, as against an estimate of \$326,989.55, or an actual monthly average of \$66,597.51, as against an estimate of \$65,397.91. Excises have produced \$349,429.77, as against an estimate of \$350,658.30; or an actual monthly average of \$69,885.95, as against an estimate of \$70,131.66. Direct taxation has yielded \$274,874.34 as against an estimate of \$208,333.30, or an actual monthly average of \$54,974.86, as against an estimate of \$41,666.66. Finally from minor miscellaneous sources—upon which no reliance whatever was put—has come \$17,361.73, exclusive of refunds.

In financial matters five months constitute an insufficient period for safe prophesy as to the results of a twelve-month. But considering the facts at hand and the tendencies now evident, there seems full reason for upposing that with no disturbing factor or unexpected occurrence the aggregate budgetary estimate for the fiscal year will be safely realized.

Any word as to the future is even more hazardous. As has been said elsewhere: "Without a dollar of funded or floating indebtedness, with a current income estimated as sufficient to meet the ordinary expenses of government, with large reserve funds to provide for unforeseen or extraordinary contingencies, and with a lighter burden of taxation upon the real economic life of the island than at any time in its history, there seems every reason for regarding the financial future of Porto Rico as bright and auspicious."

It would be ridiculous to suppose that all further necessity for financial legislation in Porto Rico has been removed. But it is only time, experience and specific conditions, that will clearly indicate where and when—

without any departure from fundamental principles—omission, amendment, or addition are desirable. In any event it seems no unwarranted optimism to believe that both in subjective appreciation and in objective fact a secure and enduring financial basis has been laid.

HENRY C. ADAMS: I do not rise with the intention of entering upon a discussion of the points presented in Dr. Hollander's excellent paper, but rather with the purpose of thanking him for the very strong and, I think, very just statement he has made of the importance of administrative considerations in the discussion of financial problems. My feeling has always been that for the scientific understanding of a great industrial or financial system, it is essential that the administrative requirements be taken into consideration. Indeed, I would go so far as to assert that theoretic analysis is likely to miss its highest aim unless one's conclusions be subjected to the test of administration. Dr. Hollander has very properly emphasized the close relation which exists between the theoretic and administrative principles in his discussion of the financial situation in Porto Rico. It is a point of view which even the theorist in economics cannot afford to overlook. And it is certainly propitious for the future of political economy in the United States that we find so large a number of men who have trained themselves in economic theory willing to undertake practical work in administration. In this regard the situation is very different from what it was when a few of us met together in Saratoga for the formation of the American Economic Association. A very respectable number of the members of this Association, either in their capacity as directors of public bureaus, or as experts, have already placed their trained intelligence at the service of the federal government, the state govern-

ments and the municipal governments of our country. I could not restrain my desire to avail myself of this opportunity to express my appreciation of the strong statements of Dr. Hollander in this regard.

FEDERICO DEGETAU:¹ There have been some statements here and some impressions made which I desire to rectify. I have not heard the first part of Mr. Adams's study, but from what I have heard it seems to me that it is necessary to make clear some points. You have heard, concerning the situation of Porto Rico under Spanish rule, that there were a superior and an inferior people, as if the Porto Rican people were placed in an inferior political relation towards the Spanish people. I must declare that I know nothing about that, and I am a Porto Rican born. On the contrary, I ought to state that Porto Rico was, from the beginning of the nineteenth century, a province of Spain equal to the other provinces. In some matters, Porto Rico had an autonomy not enjoyed by the other provinces of Spain. I refer especially to the economic relations, in which Porto Rico had an autonomy that your states do not enjoy here; and if you wish to see it confirmed by an American authority, you can read the statement of General Davis concerning the latitude and power given to the government of the island, in his report to the war department on the civil affairs of Porto Rico. The fact that the annual budget of the island was approved by the congress at Madrid would seem to give the impression that Porto Rico occupied an inferior status in relation to the Spanish government. If you think that we were in Porto Rico in the same, or similar, condition in which we are now temporarily—deprived of representa-

¹ Mr. Degetau is resident commissioner from Porto Rico.

tion in that congress—then this would seem true, but it was not so. When we were under Spanish rule, Porto Rico elected her people to represent her in the congress of Spain. We elected sixteen members to the House of Representatives. I, myself, was lately one of those representatives. We also elected four members to the senate. The congress approved the budget, because in it was vested the national sovereignty. But this authority was not an exclusive at tribute of the Spanish peninsula, but was shared by the people of the island, as it has been seen, whose representatives in the house and senate at Madrid had equal rights and privileges to those of the other provinces.

There is another point on which I ought to dwell. I refer to a matter that is awaiting decision. That is the debt of the treasury of Cuba to the people of Porto Rico. It has been said by Mr. Adams, in his paper, that Spain took the money from Porto Rico in order to use it in the war against Cuba. I have studied that question because it was my duty, and I ought to declare that his statement is not scientifically accurate. In order that you may comprehend the question, I will explain briefly how these things worked under the Spanish rule. The Porto Rican treasury, has, since the beginning of the nineteenth century, been recognized as independent of the treasury of Spain and of the treasury of Cuba. The island of Porto Rico made some loans to Cuba, in many cases when it was not in time of war. Some of these loans had no relation whatever to the war. For instance, once, in order to avoid a monetary crisis in Cuba, Porto Rico gave her some thousands—I do not remember how many. I did not come here prepared to speak, so you will excuse me if I do not give you the figures.

I would be glad to give you some explanation of some

of the other matters treated in the study of Mr. Adams, but I will merely explain the reference to the bull fights mixed in the same clause with educational and charitable institutions for the purpose of taxation. That anomaly is due to the fact that in Porto Rico bull fights were not a general amusement. There is not in any city of the island a "plaza de toros," the special place for such sport which is found in almost every Spanish city. It is a pleasure to state that bull fights were not a popular festival in my native country. The bull fights occurred very seldom in Porto Rico, and were fought by the Spanish officers there in the garrisons. These officers generally dedicated the profits of the feasts to charitable institutions. This was the reason for that provision.

MR. ADAMS: I was rather careful to choose my language when I stated that three million dollars had been taken by Spain and used in the settlement of her Cuban difficulties. In the time limit of thirty minutes one can't go into details. As a matter of fact the money spent by Spain in the attempt to crush the various insurrections of Cuba was made an obligatory debt on Cuba. Three million dollars was borrowed out of the Porto Rican treasury and sent to Cuba during the ten years' war and thus became a Cuban debt. Of this amount, I understand, a large proportion has never been repaid. It is in this sense and in this way that I meant that ^{the}Porto Rico had contributed some two million two hundred thousand dollars towards the suppression of Cuban insurrection. I do not think it is a stretch of language to use the words in that meaning.

With respect to the representation of Porto Rico, you are aware that I was careful to point out that Porto Rico

was represented in the Spanish Cortes but if Señor Degatau will take occasion to explain the electoral law in Porto Rico it will become quite apparent, I think, that the representation in the Spanish Cortes was more apparent than real. For instance, if I remember rightly, and I am trusting to my memory here, to vote in Porto Rico it was necessary to pay at least twenty pesos direct taxes.

MR. DEGATAU: I was elected by universal suffrage.

MR. ADAMS: When were you elected?

MR. DEGATAU: 1898.

MR. ADAMS: How long did the universal suffrage last?

MR. DEGATAU: Until the war with the United States, but it was originally introduced in 1869. They elected me first in 1878 and the second time in 1898 and I served until the war.

MR. ADAMS: When did you say was the interval of universal suffrage?

MR. DEGATAU: 1869 to 1874.

MR. ADAMS: What I wanted to call your attention to was the fact that during the interval between 1876 and 1890, or really up to 1898, the suffrage was so confined that it was possible for the Spanish administration if it so wished to control absolutely the representation of Porto Rico. The electoral law of 1890 provided I think—I may be wrong in these figures but I think I am correct—that an individual to vote must pay twenty pesos,—twelve dollars—in direct taxes, or he must be an office holder. The consequence was at that one time, I am told, the number of voters in San Juan who voted because of holding office was greater than the number of persons who voted because of the payment of the twenty pesos tax.